



HEALTH ANNUAL STATEMENT
FOR THE YEAR ENDING DECEMBER 31, 2004
OF THE CONDITION AND AFFAIRS OF THE

Priority Health

NAIC Group Code	3383	3383	NAIC Company Code	95561	Employer's ID Number	38-2715520
	(Current Period)	(Prior Period)				
Organized under the Laws of	Michigan			State of Domicile or Port of Entry	Michigan	
Country of Domicile	United States of America					
Licensed as business type:	Life, Accident & Health []		Property/Casualty []		Dental Service Corporation []	
	Vision Service Corporation []		Other []		Health Maintenance Organization [X]	
	Hospital, Medical & Dental Service or Indemnity []		Is HMO, Federally Qualified? Yes [] No [X]			
Incorporated	03/07/1986		Commenced Business	10/15/1986		
Statutory Home Office	1231 East Beltline NE			Grand Rapids, MI 49525-4501		
	(Street and Number)			(City or Town, State and Zip Code)		
Main Administrative Office	1231 East Beltline NE					
	Grand Rapids, MI 49525-4501			616-464-8235		
	(City or Town, State and Zip Code)			(Area Code) (Telephone Number)		
Mail Address	1231 East Beltline NE			Grand Rapids, MI 49525-4501		
	(Street and Number or P.O. Box)			(City or Town, State and Zip Code)		
Primary Location of Books and Records	1231 East Beltline NE					
	Grand Rapids, MI 49525-4501			616-464-8235		
	(City or Town, State and Zip Code)			(Area Code) (Telephone Number)		
Internet Website Address	www.priority-health.com					
Statutory Statement Contact	Malcolm Hall			616-464-8235		
	(Name)			(Area Code) (Telephone Number) (Extension)		
	malcolm.hall@priority-health.com			616-942-7916		
	(E-mail Address)			(FAX Number)		
Policyowner Relations Contact						
	(Street and Number)					
	(City or Town, State and Zip Code)					
	(Area Code) (Telephone Number) (Extension)					

OFFICERS

Name	Title	Name	Title
Kimberly K Horn	Chief Executive Officer	Judith W Hooyenga	Secretary
Dennis J Reese	Chief Financial Officer		

OTHER OFFICERS

DIRECTORS OR TRUSTEES

Richard C. Breon	Joseph L Brock	Harold E Burrell	Gaylen J Byker
Craig H Bethune #	Kenneth J Fawcett	Michael P Freed	Jon M Gans
David E Gast	Gail D Gwizdala	Jerold R Harwood	Robert W Roth #
Nicholas P Kokx	Lynn M Kotecki	Peter B Lundeen	Charles E McCallum
Timothy V Smith	Hilary F Snell	Dale M Sowders	Jody D Vanderwel
Thomas J Wesholski	David B Johnson	Dennis Aloia	Daniel H Baldwin
Stephen W Burkhammer			

State ofMichigan.....
County ofKent.....

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The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Kimberly K Horn Chief Executive Officer	Judith W Hooyenga Secretary	Dennis J Reese Chief Financial Officer
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Subscribed and sworn to before me this 28th day of February, 2005	a. Is this an original filing? Yes [X] No [] b. If no, 1. State the amendment number 2. Date filed 03/01/2005 3. Number of pages attached
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Cheryl Britcher
Executive Administrative Assistant
12/30/2005

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D).....	125,215,530		125,215,530	58,470,045
2. Stocks (Schedule D):				
2.1 Preferred stocks	0		0	0
2.2 Common stocks	10,830,212		10,830,212	0
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$0 encumbrances).....	404,124	181,856	222,268	471,229
4.2 Properties held for the production of income (less \$0 encumbrances)			0	0
4.3 Properties held for sale (less \$0 encumbrances)			0	0
5. Cash (\$(2,495,842) , Schedule E, Part 1), cash equivalents (\$0 , Schedule E, Part 2) and short-term investments (\$128,485,678 , Schedule DA).....	125,989,837		125,989,837	143,928,926
6. Contract loans, (including \$premium notes)			0	0
7. Other invested assets (Schedule BA)	15,217,376	0	15,217,376	5,194,341
8. Receivable for securities	0	0	0	0
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	277,657,079	181,856	277,475,223	208,064,541
11. Investment income due and accrued	2,263,680	0	2,263,680	1,330,175
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection	5,125,469	0	5,125,469	5,900,266
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$earned but unbilled premium).....			0	0
12.3 Accrued retrospective premium.....			0	0
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers	0	0	0	138,874
13.2 Funds held by or deposited with reinsured companies			0	0
13.3 Other amounts receivable under reinsurance contracts			0	0
14. Amounts receivable relating to uninsured plans			0	0
15.1 Current federal and foreign income tax recoverable and interest thereon			0	0
15.2 Net deferred tax asset.....			0	0
16. Guaranty funds receivable or on deposit			0	0
17. Electronic data processing equipment and software.....	0		0	22,567
18. Furniture and equipment, including health care delivery assets (\$0)	129,042	129,042	0	0
19. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
20. Receivables from parent, subsidiaries and affiliates	337,653	0	337,653	2,141,844
21. Health care (\$3,626,802) and other amounts receivable.....	6,424,684	2,811,166	3,613,518	4,340,246
22. Other assets nonadmitted			0	0
23. Aggregate write-ins for other than invested assets	291,170	291,170	0	448,126
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	292,228,777	3,413,234	288,815,543	222,386,639
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
26. Total (Lines 24 and 25)	292,228,777	3,413,234	288,815,543	222,386,639
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0	0
2301. LT Investment in Michigan Affiliated Health Plan.....	15,000	15,000	0	0
2302. Goodwill.....	0	0	0	448,126
2303. Prepaid Expenses.....	276,170	276,170	0	0
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	291,170	291,170	0	448,126

LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$0 reinsurance ceded)	.....65,412,103	.....6,971,484	.....72,383,587	.....71,525,377
2. Accrued medical incentive pool and bonus amounts	.....35,588,611		.....35,588,611	.....33,897,648
3. Unpaid claims adjustment expenses	.....1,334,942	.....142,275	.....1,477,217	.....1,459,701
4. Aggregate health policy reserves			.....0	.....0
5. Aggregate life policy reserves			.....0	.....0
6. Property/casualty unearned premium reserves			.....0	.....0
7. Aggregate health claim reserves			.....0	.....0
8. Premiums received in advance	.....16,525,719		.....16,525,719	.....14,117,638
9. General expenses due or accrued	.....2,851,462		.....2,851,462	.....1,211,881
10.1 Current federal and foreign income tax payable and interest thereon (including \$ on realized capital gains (losses))			.....0	.....0
10.2 Net deferred tax liability			.....0	.....0
11. Ceded reinsurance premiums payable			.....0	.....0
12. Amounts withheld or retained for the account of others			.....0	.....0
13. Remittance and items not allocated			.....0	.....0
14. Borrowed money (including \$ current) and interest thereon \$ (including \$ current)			.....0	.....0
15. Amounts due to parent, subsidiaries and affiliates	.....4,964,659		.....4,964,659	.....233,903
16. Payable for securities			.....0	.....0
17. Funds held under reinsurance treaties with (\$ authorized reinsurers and \$ unauthorized reinsurers)			.....0	.....0
18. Reinsurance in unauthorized companies			.....0	.....0
19. Net adjustments in assets and liabilities due to foreign exchange rates			.....0	.....0
20. Liability for amounts held under uninsured accident and health plans			.....0	.....0
21. Aggregate write-ins for other liabilities (including \$ current)	.....0	.....0	.....0	.....0
22. Total liabilities (Lines 1 to 21)	.....126,677,496	.....7,113,759	.....133,791,255	.....122,446,148
23. Common capital stock	.....XXX	.....XXX	.....10,524	.....10,524
24. Preferred capital stock	.....XXX	.....XXX		.....0
25. Gross paid in and contributed surplus	.....XXX	.....XXX	.....35,819,002	.....35,819,002
26. Surplus notes	.....XXX	.....XXX		.....0
27. Aggregate write-ins for other than special surplus funds	.....XXX	.....XXX	.....1,000,000	.....1,000,000
28. Unassigned funds (surplus)	.....XXX	.....XXX	.....118,194,762	.....63,110,965
29. Less treasury stock, at cost:				
29.1 shares common (value included in Line 23 \$ ..... )	.....XXX	.....XXX		.....0
29.2 shares preferred (value included in Line 24 \$ ..... )	.....XXX	.....XXX		.....0
30. Total capital and surplus (Lines 23 to 28 Less 29)	.....XXX	.....XXX	.....155,024,288	.....99,940,491
31. Total liabilities, capital and surplus (Lines 22 and 30)	.....XXX	.....XXX	.....288,815,543	.....222,386,639
DETAILS OF WRITE-INS				
2101.				
2102.				
2103.				
2198. Summary of remaining write-ins for Line 21 from overflow page	.....0	.....0	.....0	.....0
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above)	.....0	.....0	.....0	.....0
2701. Appropriated Retained Earnings	.....XXX	.....XXX	.....1,000,000	.....1,000,000
2702. ....	.....XXX	.....XXX		
2703. ....	.....XXX	.....XXX		
2798. Summary of remaining write-ins for Line 27 from overflow page	.....XXX	.....XXX	.....0	.....0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above)	.....XXX	.....XXX	.....1,000,000	.....1,000,000

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months.....	XXX	4,283,334	3,866,469
2. Net premium income (including .....0 non-health premium income).....	XXX	939,283,101	777,244,682
3. Change in unearned premium reserves and reserve for rate credits	XXX	(2,408,081)	(3,925,440)
4. Fee-for-service (net of \$ medical expenses)	XXX		0
5. Risk revenue	XXX		0
6. Aggregate write-ins for other health care related revenues	XXX	0	0
7. Aggregate write-ins for other non-health revenues	XXX	0	0
8. Total revenues (Lines 2 to 7)	XXX	936,875,020	773,319,242
Hospital and Medical:			
9. Hospital/medical benefits		548,672,577	446,936,281
10. Other professional services		336,257	329,770
11. Outside referrals		24,864,487	21,868,407
12. Emergency room and out-of-area		17,008,140	15,103,238
13. Prescription drugs		172,639,082	151,268,526
14. Aggregate write-ins for other hospital and medical.....	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts.....		36,018,587	40,710,215
16. Subtotal (Lines 9 to 15)	0	799,539,130	676,216,437
Less:			
17. Net reinsurance recoveries		161,117	1,299,093
18. Total hospital and medical (Lines 16 minus 17)	0	799,378,013	674,917,344
19. Non-health claims			0
20. Claims adjustment expenses, including \$1,338,713 cost containment expenses.....		13,387,139	10,677,443
21. General administrative expenses.....		75,860,456	59,258,814
22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only).....		0	0
23. Total underwriting deductions (Lines 18 through 22)	0	888,625,608	744,853,601
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	48,249,412	28,465,641
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....	4,783,499	4,783,499	2,656,630
26. Net realized capital gains (losses)		15,982	206,060
27. Net investment gains (losses) (Lines 25 plus 26)	4,783,499	4,799,481	2,862,690
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$) (amount charged off \$)]			0
29. Aggregate write-ins for other income or expenses	0	0	0
30. Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29)	XXX	53,048,893	31,328,331
31. Federal and foreign income taxes incurred	XXX		0
32. Net income (loss) (Lines 30 minus 31)	XXX	53,048,893	31,328,331
DETAILS OF WRITE-INS			
0601.	XXX		
0602.	XXX		
0603.	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	XXX	0	0
0701.	XXX		
0702.	XXX		
0703.	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page	XXX	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above)	XXX	0	0
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above)	0	0	0
2901.			
2902.			
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above)	0	0	0

CAPITAL AND SURPLUS ACCOUNT

	1 Current Year	2 Prior Year
CAPITAL AND SURPLUS ACCOUNT:		
33. Capital and surplus prior-reporting period	99,940,491	61,903,566
GAINS AND LOSSES TO CAPITAL & SURPLUS:		
34. Net income or (loss) from Line 32	53,048,893	31,328,331
35. Change in valuation basis of aggregate policy and claim reserves		0
36. Net unrealized capital gains and losses	707,088	0
37. Change in net unrealized foreign exchange capital gain or (loss)		0
38. Change in net deferred income tax		0
39. Change in nonadmitted assets	2,104,780	986,769
40. Change in unauthorized reinsurance	0	0
41. Change in treasury stock	0	0
42. Change in surplus notes	0	0
43. Cumulative effect of changes in accounting principles		0
44. Capital Changes:		
44.1 Paid in		0
44.2 Transferred from surplus (Stock Dividend)		0
44.3 Transferred to surplus		0
45. Surplus adjustments:		
45.1 Paid in		6,058,234
45.2 Transferred to capital (Stock Dividend)	0	0
45.3 Transferred from capital		0
46. Dividends to stockholders		0
47. Aggregate write-ins for gains or (losses) in surplus	(776,964)	(336,409)
48. Net change in capital & surplus (Lines 34 to 47)	55,083,797	38,036,925
49. Capital and surplus end of reporting period (Line 33 plus 48)	155,024,288	99,940,491
DETAILS OF WRITE-INS		
4701. Gain/(Loss) in Affiliates.....	(524,106)	(240,100)
4702. Change in Non-Admitted Assets.....	(252,858)	(96,309)
4703.		
4798. Summary of remaining write-ins for Line 47 from overflow page	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above)	(776,964)	(336,409)

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance.....	940,147,685	787,133,779
2. Net investment income	4,808,549	2,735,458
3. Miscellaneous income	1,329,043	2,761,196
4. Total (Lines 1 to 3)	946,285,277	792,630,433
5. Benefits and loss related payments	796,689,966	643,617,650
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....		0
7. Commissions, expenses paid and aggregate write-ins for deductions	87,590,498	69,553,708
8. Dividends paid to policyholders		0
9. Federal and foreign income taxes paid (recovered) \$ net of tax on capital gains (losses)	0	0
10. Total (Lines 5 through 9)	884,280,464	713,171,358
11. Net cash from operations (Line 4 minus Line 10)	62,004,813	79,459,075
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	37,204,983	36,592,772
12.2 Stocks	0	0
12.3 Mortgage loans	0	0
12.4 Real estate	0	1
12.5 Other invested assets	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(1,187,449)	(1,174,746)
12.7 Miscellaneous proceeds	2,114,678	1,670,944
12.8 Total investment proceeds (Lines 12.1 to 12.7)	38,132,212	37,088,971
13. Cost of investments acquired (long-term only):		
13.1 Bonds	104,893,041	54,229,024
13.2 Stocks	10,123,124	0
13.3 Mortgage loans	0	0
13.4 Real estate	1	0
13.5 Other invested assets	10,800,000	2,010,000
13.6 Miscellaneous applications	0	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	125,816,166	56,239,024
14. Net increase (or decrease) in policy loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	(87,683,954)	(19,150,053)
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock.....	0	6,058,231
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities		0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied).....	7,740,052	(1,576,144)
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	7,740,052	4,482,087
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17)	(17,939,089)	64,791,109
19. Cash and short-term investments:		
19.1 Beginning of year	143,928,926	79,137,817
19.2 End of period (Line 18 plus Line 19.1).....	125,989,837	143,928,926

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS (Gain and Loss Exhibit)

7

UNDERWRITING AND INVESTMENT EXHIBIT
PART 1 - PREMIUMS

	1	2	3	4
Line of Business	Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1+2-3)
1. Comprehensive (hospital and medical)	940,338,964		1,055,863	939,283,101
2. Medicare Supplement .....				.0
3. Dental Only.....				.0
4. Vision Only.....				.0
5. Federal Employees Health Benefits Plan .....				.0
6. Title XVIII - Medicare .....				.0
7. Title XIX - Medicaid.....				.0
8. Stop Loss .....				.0
9. Disability Income .....				.0
10. Long-term care .....				.0
11. Other health.....				.0
12. Health subtotal (Lines 1 through 11)	940,338,964	0	1,055,863	939,283,101
13. Life .....				.0
14. Property/Casualty.....				.0
15. Totals (Lines 12 to 14)	940,338,964	0	1,055,863	939,283,101

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 OF THE Priority Health

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - Claims Incurred During the Year

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non- Health
1. Payments during the year:													
1.1 Direct	762,662,333	762,639,521						22,812					
1.2 Reinsurance assumed	0												
1.3 Reinsurance ceded	299,991	299,991											
1.4 Net	762,362,342	762,339,530	0	0	0	0	0	22,812	0	0	0	0	0
2. Paid medical incentive pools and bonuses	34,327,623	34,327,623											
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct	72,383,587	72,383,587	0	0	0	0	0	0	0	0	0	0	0
3.3 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
3.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
3.4 Net	72,383,587	72,383,587	0	0	0	0	0	0	0	0	0	0	0
4. Claim reserve December 31, current year from Part 2D:													
4.1 Direct	0												
4.2 Reinsurance assumed	0												
4.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
4.4 Net	0	0	0	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year	35,588,611	35,588,611											
6. Amounts recoverable from reinsurers December 31, current year	0												
7. Claim liability December 31, prior year from Part 2A:													
7.1 Direct	71,525,377	71,507,695	0	0	0	0	0	17,682	0	0	0	0	0
7.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
7.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
7.4 Net	71,525,377	71,507,695	0	0	0	0	0	17,682	0	0	0	0	0
8. Claim reserve December 31, prior year from Part 2D:													
8.1 Direct	0	0	0	0	0	0	0	0	0	0	0	0	0
8.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
8.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
8.4 Net	0	0	0	0	0	0	0	0	0	0	0	0	0
9. Accrued medical incentive pools and bonuses, prior year	33,897,648	33,897,648	0	0	0	0	0	0	0	0	0	0	0
10. Amounts recoverable from reinsurers December 31, prior year	138,874	138,874	0	0	0	0	0	0	0	0	0	0	0
11. Incurred Benefits:													
11.1 Direct	763,520,543	763,515,413	0	0	0	0	0	5,130	0	0	0	0	0
11.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
11.3 Reinsurance ceded	161,117	161,117	0	0	0	0	0	0	0	0	0	0	0
11.4 Net	763,359,426	763,354,296	0	0	0	0	0	5,130	0	0	0	0	0
12. Incurred medical incentive pools and bonuses	36,018,586	36,018,586	0	0	0	0	0	0	0	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - Claims Liability End of Current Year

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Medical & Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Reported in Process of Adjustment:													
1.1. Direct	16,513,018	16,513,018											
1.2. Reinsurance assumed	0												
1.3. Reinsurance ceded	0												
1.4. Net	16,513,018	16,513,018	0	0	0	0	0	0	0	0	0	0	0
2. Incurred but Unreported:													
2.1. Direct	55,048,751	55,048,751											
2.2. Reinsurance assumed	0												
2.3. Reinsurance ceded	0												
2.4. Net	55,048,751	55,048,751	0	0	0	0	0	0	0	0	0	0	0
3. Amounts Withheld from Paid Claims and Capitations:													
3.1. Direct	821,818	821,818											
3.2. Reinsurance assumed	0												
3.3. Reinsurance ceded	0												
3.4. Net	821,818	821,818	0	0	0	0	0	0	0	0	0	0	0
4. TOTALS:													
4.1. Direct	72,383,587	72,383,587	0	0	0	0	0	0	0	0	0	0	0
4.2. Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
4.3. Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
4.4. Net	72,383,587	72,383,587	0	0	0	0	0	0	0	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability Dec. 31 of Current Year		5 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year		
1. Comprehensive (hospital and medical)	68,513,722	693,964,682	638,117	71,745,470	69,151,839	71,507,695
2. Medicare Supplement					0	0
3. Dental Only.....					0	0
4. Vision Only.....					0	0
5. Federal Employees Health Benefits Plan Premiums					0	0
6. Title XVIII - Medicare					0	0
7. Title XIX - Medicaid.....	22,812				22,812	17,682
8. Other health					0	0
9. Health subtotal (Lines 1 to 8).....	68,536,534	693,964,682	638,117	71,745,470	69,174,651	71,525,377
10. Other non-health.....					0	0
11. Medical incentive pools, and bonus amounts	31,800,331	2,527,292		35,588,612	31,800,331	33,897,648
12. Totals (Lines 9 to 11)	100,336,865	696,491,974	638,117	107,334,082	100,974,982	105,423,025

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)

Section A – Paid Health Claims - Hospital and Medical

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2000	2 2001	3 2002	4 2003	5 2004
1. Prior0	.0	.0	.0	
2. 2000 .....	.0	.34,268	.686	.251	.(15)
3. 2001	XXX	264,252	.42,915	.695	.5
4. 2002	XXX	XXX	.395,903	.49,490	.596
5. 2003	XXX	XXX	XXX	.520,519	.53,280
6. 2004	XXX	XXX	XXX	XXX	615,341

Section B – Incurred Health Claims - Hospital and Medical

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 2000	2 2001	3 2002	4 2003	5 2004
1. Prior0	.0	.0	.0	
2. 2000 .....	.0	.34,268	.686	.251	.(15)
3. 2001	XXX	264,252	.42,915	.696	.6
4. 2002	XXX	XXX	.395,907	.49,542	.649
5. 2003	XXX	XXX	XXX	.521,068	.58,118
6. 2004	XXX	XXX	XXX	XXX	671,219

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Hospital and Medical

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2000 .....	.0	.(15)		.0	.(15)	.0			.(15)	.0
2. 2001 .....	.0	.5		.0	.5	.0			.5	.0
3. 2002 .....	.0	.596		.0	.596	.0	.96	.1	.694	.0
4. 2003 .....	.0	.53,280		.0	.53,280	.0	.8,596	.118	.61,994	.0
5. 2004		615,341		.0	615,341	.0	99,279	1,358	715,979	.0

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)

Section A - Paid Health Claims - Title XIX Medicaid

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2000	2 2001	3 2002	4 2003	5 2004
1. Prior0	.0	.0	.0	
2. 20000	.0	.0	.0	
3. 2001	XXX	.0	.0	.0	
4. 2002	XXX	XXX	.0	412	23
5. 2003	XXX	XXX	XXX	.0	
6. 2004	XXX	XXX	XXX	XXX	

Section B – Incurred Health Claims - Title XIX Medicaid

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 2000	2 2001	3 2002	4 2003	5 2004
1. Prior0	.0	.0	.0	
2. 20000	.0	.0	.0	
3. 2001	XXX	.0	.0	.0	
4. 2002	XXX	XXX	.0	430	
5. 2003	XXX	XXX	XXX	.0	
6. 2004	XXX	XXX	XXX	XXX	

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Title XIX Medicaid

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2000 .....	.0	.0		.0	.0	.0			.0	.0
2. 2001 .....	.0	.0		.0	.0	.0			.0	.0
3. 2002 .....	.0	23		.0	23	.0			23	.0
4. 2003 .....	.0	.0		.0	.0	.0			.0	.0
5. 2004		0		.0	0	.0			0	.0

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)

Section A - Paid Health Claims - Grand Total

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2000	2 2001	3 2002	4 2003	5 2004
1. Prior0	.0	.0	.0	.0
2. 2000.....	.0	.34,268	.686	.251	.(15)
3. 2001.....	XXX	.264,252	.42,915	.695	.5
4. 2002.....	XXX	XXX	.395,903	.49,902	.619
5. 2003.....	XXX	XXX	XXX	.520,519	.53,280
6. 2004.....	XXX	XXX	XXX	XXX	.615,341

Section B - Incurred Health Claims - Grand Total

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 2000	2 2001	3 2002	4 2003	5 2004
1. Prior0	.0	.0	.0	.0
2. 2000.....	.0	.34,268	.686	.251	.(15)
3. 2001.....	XXX	.264,252	.42,915	.696	.6
4. 2002.....	XXX	XXX	.395,907	.49,972	.649
5. 2003.....	XXX	XXX	XXX	.521,068	.58,118
6. 2004.....	XXX	XXX	XXX	XXX	.671,219

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Grand Total

	1	2	3	4	5	6	7	8	9	10
Years in which Premiums were Earned and Claims were Incurred	Premiums Earned	Claim Payments	Claim Adjustment Expense Payments	Col. (3/2) Percent	Claim and Claim Adjustment Expense Payments (Col 2+3)	Col. (5/1) Percent	Claims Unpaid	Unpaid Claim Adjustment Expenses	Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	Col. (9/1) Percent
1. 2000.....	.0	.(15)	.0	.0.0	.(15)	.0.0	.0	.0	.(15)	.0.0
2. 2001.....	.0	.5	.0	.0.0	.5	.0.0	.0	.0	.5	.0.0
3. 2002.....	.0	.619	.0	.0.0	.619	.0.0	.96	.1	.717	.0.0
4. 2003.....	.0	.53,280	.0	.0.0	.53,280	.0.0	.8,596	.118	.61,994	.0.0
5. 2004.....	0	615,341	0	0.0	615,341	0.0	99,279	1,358	715,979	0.0

ANNUAL STATEMENT FOR THE YEAR 2004 OF THE Priority Health

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9	10	11	12
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other
POLICY RESERVE												
1. Unearned premium reserves .....	.0											
2. Additional policy reserves (a) .....	.0											
3. Reserve for future contingent benefits .....	.0											
4. Reserve for rate credits or experience rating refunds (including \$ for investment income) .....	.0											
5. Aggregate write-ins for other policy reserves .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
6. Totals (Gross) .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
7. Reinsurance ceded .....	.0											
8. Totals (Net) (Page 3, Line 4)	0	0			0	0	0	0	0	0	0	0
CLAIM RESERVE												
9. Present value of amounts not yet due on claims .....	.0											
10. Reserve for future contingent benefits .....	.0											
11. Aggregate write-ins for other claim reserves .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
12. Totals (Gross) .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
13. Reinsurance ceded .....	.0											
14. Totals (Net) (Page 3, Line 7)	0	0	0	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS												
0501.												
0502.												
0503.												
0598. Summary of remaining write-ins for Line 5 from overflow page .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
0599. TOTALS (Lines 0501 thru 0503 plus 0598) (Line 5 above)	0	0	0	0	0	0	0	0	0	0	0	0
1101.												
1102.												
1103.												
1198. Summary of remaining write-ins for Line 11 from overflow page .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
1199. TOTALS (Lines 1101 thru 1103 plus 1198) (Line 11 above)	0	0	0	0	0	0	0	0	0	0	0	0

(a) Includes \$ premium deficiency reserve.

UNDERWRITING AND INVESTMENT EXHIBIT
PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3 General Administration Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$for occupancy of own building).....	17,279	155,508	2,673,782		2,846,569
2. Salaries, wages and other benefits.....	1,175,197	10,576,774	25,805,407		37,557,378
3. Commissions (less \$ceded plus \$ Assumed.....			20,448,265		20,448,265
4. Legal fees and expenses.....	74	670	218,045		218,789
5. Certifications and accreditation fees.....					0
6. Auditing, actuarial and other consulting services.....	3,478	31,305	1,511,148		1,545,931
7. Traveling expenses.....	379	3,406	507,644		511,429
8. Marketing and advertising.....	512	4,609	877,848		882,969
9. Postage, express and telephone.....	4,871	43,837	1,660,329		1,709,037
10. Printing and office supplies.....	10,076	90,679	2,232,621		2,333,376
11. Occupancy, depreciation and amortization.....	42,575	383,179	3,983,460		4,409,214
12. Equipment.....	3,731	33,583	5,981,127		6,018,441
13. Cost or depreciation of EDP equipment and software.....			0		0
14. Outsourced services including EDP, claims, and other services.....	70,861	637,748	5,540,146		6,248,755
15. Boards, bureaus and association fees.....	35	315	124,513		124,863
16. Insurance, except on real estate.....	43	391	333,126		333,560
17. Collection and bank service charges.....	66	597	220,450		221,113
18. Group service and administration fees.....	224	2,015	619,766		622,005
19. Reimbursements by uninsured accident and health plans.....					0
20. Reimbursements from fiscal intermediaries.....					0
21. Real estate expenses.....					0
22. Real estate taxes.....					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....					0
23.2 State premium taxes.....					0
23.3 Regulatory authority licenses and fees.....					0
23.4 Payroll taxes.....	8,007	72,065	2,169,148		2,249,220
23.5 Other (excluding federal income and real estate taxes).....	1,305	11,745	953,631		966,681
24. Investment expenses not included elsewhere.....					0
25. Aggregate write-ins for expenses.....	0	0	0	0	0
26. Total expenses incurred (Lines 1 to 25).....	1,338,713	12,048,426	75,860,456	0	(a).....89,247,595
27. Less expenses unpaid December 31, current year.....	147,722	1,329,495	2,851,462		4,328,679
28. Add expenses unpaid December 31, prior year.....	145,970	1,313,731	1,211,881		2,671,582
29. Amounts receivable related to uninsured accident and health plans, prior year.....					0
30. Amounts receivable related to uninsured accident and health plans, current year.....					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	1,336,961	12,032,662	74,220,875	0	87,590,498
DETAIL OF WRITE-INS					
2501.					
2502.					
2503.					
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0	0
2599. Totals (Line 2501 thru 2503 plus 2598)(Line 25 above)	0	0	0	0	0

(a) Includes management fees of \$to affiliates and \$to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1	2
		Collected During Year	Earned During Year
1.	U.S. Government bonds	(a) .....2,188,401	.....2,641,731
1.1	Bonds exempt from U.S. tax	(a) .....	.....
1.2	Other bonds (unaffiliated)	(a) .....	.....
1.3	Bonds of affiliates	(a) .....	.....
2.1	Preferred stocks (unaffiliated)	(b) .....	.....
2.11	Preferred stocks of affiliates	(b) .....	.....
2.2	Common stocks (unaffiliated) .....	.....123,124	.....123,124
2.21	Common stocks of affiliates .....	.....	.....
3.	Mortgage loans	(c) .....	.....
4.	Real estate	(d) .....	.....
5.	Contract loans.....	.....	.....
6.	Cash, cash equivalents and short-term investments	(e) .....1,680,512	.....2,018,644
7.	Derivative instruments	(f) .....	.....
8.	Other invested assets .....	.....	.....
9.	Aggregate write-ins for investment income .....	.....0	.....0
10.	Total gross investment income	3,992,037	4,783,499
11.	Investment expenses		(g) .....0
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h)
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income .....		.....0
16.	Total (Lines 11 through 15) .....		.....0
17.	Net Investment Income - (Line 10 minus Line 16)		4,783,499
DETAILS OF WRITE-INS			
0901.	.....	.....	.....
0902.	.....	.....	.....
0903.	.....	.....	.....
0998.	Summary of remaining write-ins for Line 9 from overflow page .....	.....0	.....0
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	0
1501.	.....	
1502.	.....	
1503.	.....	
1598.	Summary of remaining write-ins for Line 15 from overflow page .....		.....0
1599.	Total (Lines 1501 through 1503 plus 1598) (Line 15, above)		0

(a) Includes \$0 accrual of discount less \$958,555 amortization of premium and less \$625,077 paid for accrued interest on purchases.
(b) Includes \$accrual of discount less \$amortization of premium and less \$paid for accrued dividends on purchases.
(c) Includes \$0 accrual of discount less \$0 amortization of premium and less \$0 paid for accrued interest on purchases.
(d) Includes \$for company's occupancy of its own buildings; and excludes \$ interest on encumbrances.
(e) Includes \$accrual of discount less \$amortization of premium and less \$paid for accrued interest on purchases.
(f) Includes \$accrual of discount less \$amortization of premium.
(g) Includes \$0 investment expenses and \$0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes \$interest on surplus notes and \$ interest on capital notes.
(i) Includes \$depreciation on real estate and \$ depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1	2	3	4
		Realized Gain (Loss) On Sales or Maturity	Other Realized Adjustments	Increases (Decreases) by Adjustment	Total
1.	U.S. Government bonds .....	.....15,982			.....15,982
1.1	Bonds exempt from U.S. tax .....				.....0
1.2	Other bonds (unaffiliated) .....				.....0
1.3	Bonds of affiliates .....				.....0
2.1	Preferred stocks (unaffiliated) .....				.....0
2.11	Preferred stocks of affiliates .....				.....0
2.2	Common stocks (unaffiliated) .....				.....0
2.21	Common stocks of affiliates .....				.....0
3.	Mortgage loans .....				.....0
4.	Real estate .....				.....0
5.	Contract loans .....				.....0
6.	Cash, cash equivalents and short-term investments .....				.....0
7.	Derivative instruments .....				.....0
8.	Other invested assets .....				.....0
9.	Aggregate write-ins for capital gains (losses) .....	.....0	.....0	.....0	.....0
10.	Total capital gains (losses)	15,982	0	0	15,982
DETAILS OF WRITE-INS					
0901.	.....			
0902.	.....			
0903.	.....			
0998.	Summary of remaining write-ins for Line 9 from overflow page .....	.....0	.....0	.....0	.....0
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	0	0	0

EXHIBIT OF NONADMITTED ASSETS

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	181,856	83,158	(98,698)
4.2 Properties held for the production of income.....	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash, (Schedule E, Part 1), cash equivalents (Schedule E, Part 2) and short -term investments (Schedule DA)	0	0	0
6. Contract loans	0	0	0
7. Other invested assets (Schedule BA)	0	0	0
8. Receivable for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	181,856	83,158	(98,698)
11. Investment income due and accrued	0	0	0
12. Premiums and considerations:			
12.1 Uncollected premiums and agents' balances in the course of collection	0	89,787	89,787
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....	0	0	0
12.3 Accrued retrospective premium.....	0	0	0
13. Reinsurance:			
13.1 Amounts recoverable from reinsurers	0	0	0
13.2 Funds held by or deposited with reinsured companies	0	0	0
13.3 Other amounts receivable under reinsurance contracts	0	0	0
14. Amounts receivable relating to uninsured plans	0	0	0
15.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
15.2 Net deferred tax asset.....	0	0	0
16. Guaranty funds receivable or on deposit	0	0	0
17. Electronic data processing equipment and software.....	0	451,035	451,035
18. Furniture and equipment, including health care delivery assets.....	129,042	130,818	1,776
19. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
20. Receivables from parent, subsidiaries and affiliates	0	696,890	696,890
21. Health care and other amounts receivable.....	2,811,166	3,413,481	602,315
22. Other assets nonadmitted	0	0	0
23. Aggregate write-ins for other than invested assets	291,170	652,845	361,675
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	3,413,234	5,518,014	2,104,780
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
26. Total (Lines 24 and 25)	3,413,234	5,518,014	2,104,780
DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0
2301. LT Investment in Michigan Affiliated Health Plan.....	15,000	15,000	0
2302. Goodwill.....	0	0	0
2303. Prepaid Expenses.....	276,170	637,845	361,675
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	291,170	652,845	361,675

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health Maintenance Organizations.....	282,049	285,535	286,876	290,231	293,245	3,455,944
2. Provider Service Organizations.....	.0					
3. Preferred Provider Organizations.....	.0					
4. Point of Service.....	53,431	68,731	69,214	68,722	70,318	827,390
5. Indemnity Only.....	.0					
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	335,480	354,266	356,090	358,953	363,563	4,283,334
DETAILS OF WRITE-INS						
0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page .....	.0	.0	.0	.0	.0	.0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	0	0	0	0	0	0

NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

A. Nature of Organization and Ownership

Priority Health (the Plan) is a nonprofit, nontaxable health maintenance organization owned primarily by Spectrum Health (Spectrum, the 76% shareholder), Holland Community Hospital, Munson Healthcare and Healthshare, Inc. The Plan provides coverage for medical, hospital and other health care services to its members, who are located primarily within Michigan, through contracts executed with various health care providers. Priority Health offers health coverage to commercial subscribers as a standard health maintenance organization product or a point-of-service product.

Priority Health is the 100% owner of Priority Health Government Programs, Inc, (PHGP) an HMO established effective October 1, 2002. Priority Health is the sole owner and parent of this company and reflects the operations of this company in its own financial statements in accordance with prescribed accounting practices and procedures. PHGP currently has over 37,500 Medicaid and MICHild members.

Priority Health is the 100% owner of Priority Health Insurance Company, (PHIC) established effective September 1, 2004. Priority Health is the sole owner and parent of this company and reflects the operations of this company in its own financial statements in accordance with prescribed accounting practices and procedures. PHIC provides contracts of insurance or reinsurance, including endorsements, for medical, hospital and other health care services. PHIC currently has no members.

The agreements with certain participating providers call for reimbursement at various capitated rates or percentages of fees, less applicable member copayments, coinsurance or deductibles, on a current basis. The agreements provide for contingent reimbursement to participating providers based upon the results of operations within their defined risk pool. In the event the risk pool's utilization of defined measures meets, or exceeds, documented thresholds, the providers may share in the surplus, and be eligible for the return of previously withheld fees, as defined in their respective contracts. In addition, the Plan provides for a quality incentive to be paid to certain providers contingent upon achieving specified quality goals.

Priority Health's statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the Michigan Insurance Bureau. The NAIC has revised the *Accounting Practices and Procedures Manual* in a process referred to as Codification. The revised manual became effective on January 1, 2001. Codification was transitioned into the reporting required by the State of Michigan Office of Insurance and Financial Services (OFIS) beginning January 1, 2003. HMOs will follow NAIC SAP with the exceptions noted in the following excerpt from the State of Michigan filing instructions.

"The manual requires insurers to fully disclose and quantify any deviations from the practices and procedures adopted in the manual. HMOs, AFDS and Dental Service Corporations must prepare their financial statements in accordance with this guidance except as modified by this order. This change in accounting principles may have a significant financial impact to some entities. Therefore, the Commissioner is providing a transition period (a prescribed practice) for certain statements of statutory accounting principles (SSAPs) found in the NAIC Accounting Practices and Procedures Manual. The following outlines the transition of the specific SSAPs.

There is a full adoption and application of any SSAP not listed below.

SSAP 16 - Electronic Data Processing Equipment and Software

This SSAP will be adopted using the following transition scenario, whereby the aggregate amount of admitted EDP equipment and operating system software (net of depreciation) shall be limited to the following percentage of the reporting entity's capital and surplus:

Effective January 1, 2003 25%

Effective January 1, 2004 15%

Effective January 1, 2005 5%

Effective January 1, 2006, the requirements of SSAP 16 will be fully adopted.

SSAP 19 - Furniture and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements

This SSAP will be adopted using the following transition scenario, whereby the reporting entity will be permitted to report as an admitted asset the following percentage of its book value of furniture and equipment and leasehold improvements:

Effective January 1, 2003 85%

NOTES TO FINANCIAL STATEMENTS

Effective January 1, 2004 55%

Effective January 1, 2005 25%

Effective January 1, 2006, the requirements of SSAP 19 will be fully adopted.

SSAP 84 - Certain Health Care Receivables and Receivables Under Government Insured Plans

Loans or advances to hospitals or other providers are not permitted. SSAP 84 provided a transition provision in the pharmaceutical rebates and risk sharing receivables when this accounting principle was adopted by the NAIC. SSAP 84 assumed states would adopt codification effective 2001 and therefore, NAIC transitions no longer apply effective January 1, 2003. OFIS will extend these transitions another year. For pharmaceutical and risk sharing receivables, the transition will expire on invoices prior to January 1, 2004. Entities are expected to renegotiate their contracts with pharmacy benefit managers and providers to comply with the requirements of SSAP 84 for future reporting periods.”

The cumulative effect of changes in accounting principles adopted to conform to the revised *Accounting Practices and Procedures Manual* would be reported as an adjustment to surplus as of the first of the period upon its adoption. Management has determined that, although the implementation of Codification will have some operational impact to Priority Health, the financial effect of adoption with the exceptions noted is \$0 for the year 2004. Specifically, Priority Health has redesigned its pharmacy rebates receipt frequency with its Pharmacy Rebates Manager (PRM) and required its PRM to disclose appropriate SSAP 84 information for the Plan’s timely filing. Effective with first quarter 2003, the Plan complied with SSAP 84 and the appropriate admission of pharmacy rebates. The Plan will continue to comply with all regulatory and contractual obligations.

B. Use of Estimates

The preparation of financial statements of insurance companies requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

C. Accounting Policy

1. All short-term investments have been classified in accordance with National Association of Insurance Commissioners (NAIC) guidelines and are stated at amortized cost for financial statement disclosure.
2. Investments consist of bonds that are carried at amortized cost. The cost of bonds is adjusted for amortization of premiums and discounts to maturity using a level-yield method. Realized gains and losses are determined using the specific identification method and are included in operations. The fair value of investments is determined based upon quoted market prices.
3. Investments in Common Stocks are reported at fair market value based upon quoted market prices.
4. Preferred Stocks are Not Applicable
5. Mortgage loans are Not Applicable
6. Loan-backed securities as well as other asset-backed securities are held and are reported at their amortized cost.
7. The Plan uses the equity method to account for investment in and the continuing operations of the wholly owned subsidiary Priority Health Government Programs, Inc. and Priority Health Insurance Company as described in SSAP 46.
8. The Plan does not have minor ownership interests in joint ventures.
9. Derivatives are not held by the Plan and therefore this disclosure is Not Applicable.
10. and 11. Under traditional arrangements, health care costs are recognized as expenses when services are rendered including, based on historical data, an estimate of costs incurred, but not reported at the balance sheet date. Under capitation arrangements, health care costs are recognized when accruable under the providers’ respective agreements. Adjustments to previously rendered claims reserve estimates are reflected in the statement of operations in the period in which the estimates are revised. Such reserve adjustments consist of restatements of claims estimates and changes in margin associated with these estimates and could be material in the future. Given the nature of the health care costs and provider billing requirements, as defined by the participating providers’ agreements, amounts accrued at year-end are paid predominantly in the following year.
12. The Company has not modified its capitalization policy from the prior period.

2. Accounting Changes and Correction of Errors

NOTES TO FINANCIAL STATEMENTS

A. Material Changes in Accounting Principles

The Plan does not have any material changes in accounting principles and/or correction of errors in the reporting period.

B. Cumulative Effect of Changes for the Implementation of Codification

The State of Michigan has adopted the provisions of NAIC SAP reporting manual for Health Maintenance Organizations (HMO) with the exceptions noted previously. HMOs within the State of Michigan including Priority Health has adopted these provisions as prescribed.

3. Business Combinations and Goodwill

A. Not Applicable

B. On August 6, 1999, Northmed HMO merged with Priority Health. Munson Healthcare and Healthshare, Inc upon merger owned 279 and 31 shares of Class B stock respectively. In accordance with the merger document, additional Class B stock was transferred to Munson Healthcare (additional 192 shares) and Healthshare, Inc (additional 22 shares) as contingent consideration based upon covered lives and incremental value realized in the Northern Michigan region as of December 31, 2000. From this transaction, an additional goodwill amount of \$597,416 was recorded.

C. Not Applicable

D. Not Applicable

4. Discontinued Operations

The Plan has no Discontinued Operations to report.

5. Investments

A. Mortgage Loans --Not Applicable

B. Debt Restructuring -- Not Applicable

C. Reverse Mortgages -- Not Applicable

D. Loan-backed securities –

1. The company does not have securities purchased prior to January 1, 1994.

2. Prepayment assumptions for loan-backed and asset-backed securities were obtained from broker dealer survey including Bloomberg and Solomon Yield Book.

3. The Plan has applied retrospective adjustment methodology to these investments.

E. Repurchase Agreements -- Not Applicable

F. Real Estate – Not Applicable

6. Joint Ventures, Partnerships and Limited Liability Companies

The Plan has no Joint Ventures, Partnerships, or Limited Liabilities Companies to Report.

7. Investment Income

This note is Not Applicable to the Plan as no income due is past its due date and no investment income was non-admitted.

8. Derivative Instruments

This note is Not Applicable to the Plan.

9. Income Taxes

The Plan is exempt from federal income taxes as an organization described under Internal Revenue Code Section 501(c)(4). Therefore, income tax expense has not been recorded.

10. Information Concerning Parent, Subsidiaries, and Affiliates

A, B, C, D, E, F, G

NOTES TO FINANCIAL STATEMENTS

The Plan has a management contract with Priority Health Managed Benefits, Inc. to provide certain management services. The management fee incurred by the Plan was \$ 67,265,000 in 2004 and \$ 50,828,000 in 2003, respectively.

Rental payments for operating leases are being paid by Priority Health Managed Benefits, Inc., an organization related to the Plan through common ownership, as part of the management contract.

Premium revenues recognized from related organizations were approximately \$73,686,909 during 2004 and \$69,965,510 during 2003. Health care costs approximating \$123,921,000 during 2004 and \$96,548,000 in 2003 were provided to plan members by related organizations.

Amounts due from affiliates of \$338,000 at December 31, 2004 and \$2,142,000 at December 31, 2003, represent receivables from affiliated hospital providers and subsidiaries. Amounts due to affiliates of \$ 4,965,000 at December 31, 2004 and \$234,000 at December 31, 2003, are related to amounts owed under the management agreement and contractual obligations under provider participation agreements.

Of the Plan's 10,524 outstanding shares of stock, 8,000 shares are owned by Spectrum Health Corporation, the controlling party of a multi-facility hospital organization located in Grand Rapids, Michigan.

H--None

I---Investment in SCA does not meet criteria

J -- None

11. Debt

The Plan does not have Capital Notes nor any other type of debt, therefore, this note is Not Applicable.

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

This note is Not Applicable to the Plan.

13. Capital and Surplus, Shareholder's Dividend Restrictions, and Quasi-Reorganizations

- (1) The Plan has 10,000--Class A and 60,000--Class B authorized shares of common stock. Of these shares, 10,524 are issued and outstanding (10,000--Class A, 524--Class B).
- (2) The Plan has no preferred stock outstanding.
- (3) and (4) All stock is non-dividend bearing
- (5) There were no restrictions placed on the Plans surplus.
- (6) The total amount of advances to surplus not repaid – Not Applicable
- (7) This is Not Applicable to the Plan.
- (8) This is Not Applicable to the Plan
- (9) The portion of unassigned funds (surplus) represented or reduced by each of the following items:
 - a. unrealized gains and losses: \$ 707,000
 - b. nonadmitted asset values: \$2,105,000
 - c. separate account balances: \$ None
 - d. asset valuation reserves: \$ None
 - e. provision for reinsurance: \$ None
- (10) This is Not Applicable to the Plan
- (11) This is Not Applicable to the Plan
- (12) This is Not Applicable to the Plan

NOTES TO FINANCIAL STATEMENTS

14. Contingencies

- A. The Plan has committed to its wholly owned subsidiary Priority Health Government Programs, Inc., additional capital as needed in order for this subsidiary to meet capital requirements as mandated by the regulating authority.
- B. Assessments are likewise Not Applicable.
- C. Gain Contingencies are Not Applicable.
- D. All Other Contingencies are Not Applicable.

15. Leases

A. Lessee Operating Lease

1. In the course of business, The Plan does not enter into leases directly. The Plan's management company does lease office space, office equipment, and computer hardware/software under various operating lease agreements that expire over various periods of time. Rental expense for 2003 and 2004 was approximately \$9,285,000 and \$10,079,000, respectively. The Plan pays the management company for the fully allocated cost for these leases as described in the Management Agreement.

2. At January 1, 2005, the minimum aggregate rental commitments are as follows:

Year Ending December 31 Operating Leases

1. 2005	\$3,778,960
2. 2006	\$3,862,879
3. 2007	\$3,775,460
4. 2008	\$3,096,210
5. 2009	\$3,238,880

3. The company is not involved in any sales--leaseback transactions.

B. Lessor Leases

This note is Not Applicable to the Plan.

16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk

This note is Not Applicable to the Plan.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

This note is Not Applicable to the Plan.

18. Gain of Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

This note is Not Applicable to the Plan.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

This note is Not Applicable to the Plan.

20. September 11 Events

NOTES TO FINANCIAL STATEMENTS

No direct impact to the Plan's operations has been recognized as a result of the September 11 events.

21. Other Items

The Plan does not have Extraordinary Items, Troubled Debt Restructuring, or other items indicated as a requirement for disclosure.

22. Events Subsequent

There are no subsequent events to report for the Plan.

23. Reinsurance

- A. Not Applicable
- B. Not Applicable
- C. None

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

This note is Not Applicable to the Plan.

25. Change in Incurred Claims and Claim Adjustment Expenses

Adjustments to previously rendered claims reserve estimates are reflected in the statement of activities in the period in which the estimates are revised. Such reserve adjustments consist of restatements of claim estimates and release of any margin associated with these estimates. Reserve adjustments were favorable by approximately \$2.35 million in 2004, reducing the prior year-end claim reserve estimates of \$72.99 million to \$70.64 million.

26. Intercompany Pooling Arrangements

This note is Not Applicable to the Plan.

27. Structured Settlements

This note is Not Applicable to the Plan.

28. Health Care Receivables

As the State of Michigan has now formally adopted Codification and SSAP 84, the required disclosures of SSAP No. 84 are provided below.

- A. Pharmacy rebates as of the end of each quarter for the years ended December 31, 2004 and 2003 are as follows:

NOTES TO FINANCIAL STATEMENTS

	Estimated on FS	Pharmacy rebates as Invoiced/ Confirmed within 60 days period end	Actual Rebates collected within 90 days of invoicing	Actual Rebates collected within 91 to 180 days of invoicing	Actual Rebates collected beyond 180 days of invoicing
12/31/2004	\$ 3,611,249	\$ 3,611,249	\$ -	\$ -	\$ -
9/30/2004	\$ 3,626,802	\$ 2,890,351	\$ -	\$ -	\$ -
6/30/2004	\$ 3,626,802	\$ 3,471,946	\$ 2,752,903	\$ 284,354	\$ -
3/31/2004	\$ 3,690,908	\$ 2,889,596	\$ 2,716,927	\$ 705,541	\$ 27,543
12/31/2003	\$ 3,718,878	\$ 3,718,878	\$ 1,517,829	\$ 1,832,155	\$ 12,628
9/30/2003	\$ 5,784,138	\$ 4,294,835	\$ 3,090,536	\$ 872,834	\$ 564,294
6/30/2003	\$ 6,557,380	\$ 4,317,657	\$ 3,551,605	\$ -	\$ 371,124
3/31/2003	\$ 6,718,321	Unavailable	\$ 2,517,374	\$ 1,337,159	\$ (416,173)

B. This note is Not Applicable to the Plan.

29. Participating Policies

This note is Not Applicable to the Plan.

30. Premium Deficiency Reserves

The Plan does not record premium deficiency reserves in its financial statements.

31. Anticipated Salvage and Subrogation

The Plan does not estimate anticipated salvage and subrogation nor reduce any amount from its liability for unpaid claims or losses.

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. Treasury securities	11,228,021	4.046	11,228,021	4.046
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies		0.000		0.000
1.22 Issued by U.S. government sponsored agencies	27,370,126	9.864	27,370,126	9.864
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)		0.000		0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations		0.000		0.000
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	174,642	0.063	174,642	0.063
1.43 Revenue and assessment obligations	1,757,345	0.633	1,757,345	0.633
1.44 Industrial development and similar obligations		0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	2,485,282	0.896	2,485,282	0.896
1.512 Issued or guaranteed by FNMA and FHLMC	29,366,342	10.583	29,366,342	10.583
1.513 All other		0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	1,468,804	0.529	1,468,804	0.529
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521		0.000		0.000
1.523 All other	12,645,813	4.557	12,645,813	4.557
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	38,719,153	13.954	38,719,153	13.954
2.2 Unaffiliated foreign securities		0.000		0.000
2.3 Affiliated securities		0.000		0.000
3. Equity interests:				
3.1 Investments in mutual funds	10,830,212	3.903	10,830,212	3.903
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated		0.000		0.000
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000		0.000
3.32 Unaffiliated		0.000		0.000
3.4 Other equity securities:				
3.41 Affiliated		0.000		0.000
3.42 Unaffiliated		0.000		0.000
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated		0.000		0.000
3.52 Unaffiliated		0.000		0.000
4. Mortgage loans:				
4.1 Construction and land development		0.000		0.000
4.2 Agricultural		0.000		0.000
4.3 Single family residential properties		0.000		0.000
4.4 Multifamily residential properties		0.000		0.000
4.5 Commercial loans		0.000		0.000
4.6 Mezzanine real estate loans		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company	222,268	0.080	222,268	0.080
5.2 Property held for the production of income (includes \$of property acquired in satisfaction of debt)		0.000	0	0.000
5.3 Property held for sale (\$including property acquired in satisfaction of debt)		0.000	0	0.000
6. Policy loans		0.000		0.000
7. Receivables for securities		0.000	0	0.000
8. Cash, cash equivalents and short-term investments	125,989,837	45.405	125,989,837	45.406
9. Other invested assets	15,222,875	5.486	15,217,376	5.484
10. Total invested assets	277,480,720	100.000	277,475,221	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

- 1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes [X] No []
- 1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes [X] No [] NA []
- 1.3

State Regulating?

Michigan
- 2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes [] No [X]
- 2.2

If yes, date of change:

If not previously filed, furnish herewith a certified copy of the instrument as amended.
- 3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2003
- 3.2

State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/1999
- 3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

06/29/2001
- 3.4

By what department or departments?

Michigan Office of Financial and Insurance Services
- 4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity), receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business?

4.12 renewals?

Yes [] No [X]

Yes [] No [X]
- 4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business?

4.22 renewals?

Yes [] No [X]

Yes [] No [X]
- 5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes [] No [X]
- 5.2

If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

- 6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.)

Yes [] No [X]
- 6.2

If yes, give full information
- 7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes [] No [X]
- 7.2

If yes,

7.21 State the percentage of foreign control;

7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation or government, manager or attorney in fact).

1 Nationality	2 Type of Entity

GENERAL INTERROGATORIES

- 8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [] No [X]
- 8.2

If response to 8.1 is yes, please identify the name of the bank holding company.
- 8.3

Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [] No [X]
- 8.4

If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator.]

1	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	SEC

9.

What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

Ernst & Young LLP, 171 Monroe Ave, Grand Rapids, MI 49503
10.

What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

Milliman USA, 1550 Liberty Ridge Dr. Suite 200, Wayne, PA 19087
11.

FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 11.1

What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?
- 11.2

Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes [] No []
- 11.3

Have there been any changes made to any of the trust indentures during the year?

Yes [] No []
- 11.4

If answer to (11.3) is yes, has the domiciliary or entry state approved the changes?

Yes [] No [] NA []

BOARD OF DIRECTORS

12.

Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof?

Yes [X] No []
13.

Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof?

Yes [X] No []
14.

Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or likely to conflict with the official duties of such person?.

Yes [X] No []

FINANCIAL

- 15.1

Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

15.11 To directors or other officers ..

\$.....

15.12 To stockholders not officers ...

\$.....

15.13 Trustees, supreme or grand (Fraternal only)

\$.....
- 15.2

Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):

15.21 To directors or other officers ...

\$.....

15.22 To stockholders not officers

\$.....

15.23 Trustees, supreme or grand (Fraternal only)

\$.....
- 16.1

Were any of the assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in this statement?

Yes [] No [X]
- 16.2

If yes, state the amount thereof at December 31 of the current year:

16.21 Rented from others

\$.....

16.22 Borrowed from others

\$.....

16.23 Leased from others

\$.....

16.24 Other

\$.....
- Disclose in Notes to Financial the nature of each obligation.
- 17.1

Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes [] No [X]
- 17.2

If answer is yes,

17.21 Amount paid as losses or risk adjustment

\$.....

17.22 Amount paid as expenses

\$.....

17.23 Other amounts paid

\$.....

GENERAL INTERROGATORIES
INVESTMENT

18. List the following capital stock information for the reporting entity:

Class	1 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price if Callable	5 Is Dividend Rate Limited?		6 Are Dividends Cumulative?	
					Yes	No	Yes	No
Preferred					[]	[X]	[]	[X]
Common	60,000	10,524	1.000	XXX	XXX	XXX	XXX	XXX

19.1. Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes [X] No []

19.2 If no, give full and complete information relating thereto:

20.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on the Schedule E - Part 3 - Special Deposits; or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 16.1) Yes [] No [X]

20.2 If yes, state the amount thereof at December 31 of the current year:

20.21

Loaned to others

\$.....

20.22

Subject to repurchase agreements

\$.....

20.23

Subject to reverse repurchase agreements

\$.....

20.24

Subject to dollar repurchase agreements

\$.....

20.25

Subject to reverse dollar repurchase agreements

\$.....

20.26

Pledged as collateral

\$.....

20.27

Placed under option agreements

\$.....

20.28

Letter stock or other securities restricted as to sale ...

\$.....

20.29

Other

\$.....

20.3 For category (20.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount
.....
.....
.....
.....

21.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [] No [X]

21.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [] No [] NA [X]
If no, attach a description with this statement.

22.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [] No [X]

22.2 If yes, state the amount thereof at December 31 of the current year. \$.....

GENERAL INTERROGATORIES

INVESTMENT

23. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 – General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No []

23.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

¹ Name of Custodian(s)	² Custodian's Address
Mellon Trust.....	Pittsburgh, PA.....
Fifth Third Bank.....	Grand Rapids, MI.....
Huntington Bank.....	Grand Rapids, MI.....

23.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

¹ Name(s)	² Location(s)	² Complete Explanation(s)
.....
.....

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year? Yes [] No [X]

23.04 If yes, give full and complete information relating thereto:

¹ Old Custodian	² New Custodian	³ Date of Change	⁴ Reason
.....

23.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

¹ Central Registration Depository Number(s)	² Name	² Address
n/a.....	Prime Investments.....	Bloomfield, CT.....

24.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])?..... Yes [X] No []

24.2 If yes, complete the following schedule:

¹ CUSIP #	² Name of Mutual Fund	³ Book/Adjusted Carrying Value
24.2001. 922040-10-0.....	VANGUARD INSTL INDEX FUND.....	10,830,212
9999999. TOTAL		10,830,212

24.3 For each mutual fund listed in the table above, complete the following schedule:

¹ Name of Mutual Fund (from above table)	² Name of Significant Holding Of the Mutual Fund	³ Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	⁴ Date of Valuation
VANDGUARD INSTL INDEX FUND.....	General Electric Co.	346,567	12/31/2004.....
.....

GENERAL INTERROGATORIES

INVESTMENT

25. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1	2	3
	Statement (Admitted) Value	Fair Value	Excess of Statement over Fair Value (-) or Fair Value over Statement (+)
25.1 Bonds.....	253,701,208	253,483,051	(218,157)
25.2 Preferred stocks.....	0	0	0
25.3 Totals	253,701,208	253,483,051	(218,157)

25.4 Describe the sources or methods utilized in determining fair values:

26.1 Have all the filing requirements of the *Purposes and Procedures* manual of the NAIC Securities Valuation Office been followed? Yes [X] No []

26.2 If no, list the exceptions:

OTHER

27.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any?.....\$0

27.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

1 Name	2 Amount Paid
.....
.....
.....

28.1 Amount of payments for legal expenses, if any?.....\$0

28.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
.....
.....
.....

29.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?.....\$0

29.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
.....
.....
.....

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [] No [X]

1.2

If yes, indicate premium earned on U. S. business only

\$

1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$

1.31

Reason for excluding

1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

\$

1.5

Indicate total incurred claims on all Medicare Supplement Insurance.

\$

1.6

Individual policies:

Most current three years:

1.61

Total premium earned

\$

0

1.62

Total incurred claims

\$

0

1.63

Number of covered lives

\$

0

All years prior to most current three years:

1.64

Total premium earned

\$

0

1.65

Total incurred claims

\$

0

1.66

Number of covered lives

\$

0

1.7

Group policies:

Most current three years:

1.71

Total premium earned

\$

0

1.72

Total incurred claims

\$

0

1.73

Number of covered lives

\$

0

All years prior to most current three years:

1.74

Total premium earned

\$

0

1.75

Total incurred claims

\$

0

1.76

Number of covered lives

\$

0

2.

Health Test:

1

Current Year

2

Prior Year

2.1

Premium Numerator

\$

939,283,101

\$

773,476,640

2.2

Premium Denominator

\$

939,283,101

\$

773,474,238

2.3

Premium Ratio (2.1/2.2)

1.000

1.000

2.4

Reserve Numerator

\$

107,972,199

\$

105,423,025

2.5

Reserve Denominator

\$

107,972,198

\$

105,423,025

2.6

Reserve Ratio (2.4/2.5)

1.000

1.000

3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits?

Yes [] No [X]

3.2

If yes, give particulars:

4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency?

Yes [X] No []

4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [] No []

5.1

Does the reporting entity have stop-loss reinsurance?

Yes [X] No []

5.2

If no, explain:

5.3

Maximum retained risk (see instructions)

5.31

Comprehensive Medical

\$

1,000,000

5.32

Medical Only

\$

1,000,000

5.33

Medicare Supplement

\$

5.34

Dental

\$

5.35

Other Limited Benefit Plan

\$

5.36

Other

\$

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

HMO Holds harmless provisions of provider contracts, trust indentures.

7.1

Does the reporting entity set up its claim liability for provider services on a service data base?

Yes [X] No []

7.2

If no, give details:

8.

Provide the following Information regarding participating providers:

8.1

Number of providers at start of reporting year

2,749

8.2

Number of providers at end of reporting year

2,870

9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [] No [X]

9.2

If yes, direct premium earned:

9.21

Business with rate guarantees between 15-36 months

9.22

Business with rate guarantees over 36 months

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contract?

Yes [X] No []

10.2 If yes:

10.21 Maximum amount payable bonuses

\$.....10,453,334

10.22 Amount actually paid for year bonuses

\$.....6,547,930

10.23 Maximum amount payable withholds

\$.....15,654,325

10.24 Amount actually paid for year withholds

\$.....21,704,310

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model,

Yes [] No [X]

11.13 An Individual Practice Association (IPA), or,

Yes [X] No []

11.14 A Mixed Model (combination of above) ?

Yes [] No [X]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes [X] No []

11.3 If yes, show the name of the state requiring such net worth.

Michigan

11.4 If yes, show the amount required.

\$.....1,000,000

11.5 Is this amount included as part of a contingency reserve in stockholders equity?

Yes [X] No []

11.6 If the amount is calculated, show the calculation.

12. List service areas in which reporting entity is licensed to operate:

1
Name of Service Area
Allegan County.....
Antrim County.....
Barry County.....
Benzie County.....
Charlevoix County.....
Cheboygan County.....
Clinton County.....
Crawford County.....
Eaton County.....
Emmet County.....
Grand Traverse County.....
Gratiot County.....
Ionia County.....
Kalkaska County.....
Kent County.....
Lake County.....
Leelanau County.....
Manistee County.....
Mason County.....
Mecosta County.....
Missaukee County.....
Montcalm County.....
Montmorency County.....
Muskegon County.....
Newaygo County.....
Oceana County.....
Osceola County.....
Otsego County.....
Ottawa County.....
Roscommon County.....
Wexford County.....

FIVE-YEAR HISTORICAL DATA

	1 2004	2 2003	3 2002	4 2001	5 2000
BALANCE SHEET ITEMS (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	288,815,543	222,386,639	150,427,434	125,890,152	101,350,571
2. Total liabilities (Page 3, Line 22)	133,791,255	122,446,148	88,523,865	82,418,873	75,493,755
3. Statutory surplus	1,000,000	1,000,000	1,000,000	1,000,000	0
4. Total capital and surplus (Page 3, Line 30)	155,024,288	99,940,491	61,903,569	43,471,279	25,856,816
INCOME STATEMENT ITEMS (Page 4)					
5. Total revenues (Line 8)	936,875,020	773,665,841	606,858,726	473,735,918	392,210,473
6. Total medical and hospital expenses (Line 18)	799,378,013	675,108,947	538,740,832	420,166,305	352,667,576
7. Claims adjustment expenses (Line 20)	13,387,139	10,677,443			
8. Total administrative expenses (Line 21)	75,860,456	59,413,810	42,956,275	37,469,528	33,849,478
9. Net underwriting gain (loss) (Line 24)	48,249,412	28,465,641	12,051,448	9,659,647	5,693,419
10. Net investment gain (loss) (Line 27)	4,799,481	2,862,690	3,392,800	4,097,521	3,759,023
11. Total other income (Lines 28 plus 29)	0	0	304,130	112,151	0
12. Net income (loss) (Line 32)	53,048,893	31,328,331	15,748,378	13,869,319	9,452,442
RISK - BASED CAPITAL ANALYSIS					
13. Total adjusted capital.....	155,024,288	99,940,491	61,903,569	43,471,279	25,856,816
14. Authorized control level risk-based capital.....	29,640,000	28,635,028	19,405,421	14,385,441	12,913,573
ENROLLMENT (Exhibit 1)					
15. Total members at end of period (Column 5, Line 7)	363,563	335,480	288,535	268,585	243,241
16. Total member months (Column 6, Line 7)	4,283,334	3,866,469	3,467,361	3,081,011	2,818,212
OPERATING PERCENTAGE (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
17. Premiums earned (Lines 2 plus 3)	100.0	100.0	100.0	100.0	100.0
18. Total hospital and medical (Line 18)	85.3	87.3	88.8	88.7	89.1
19. Cost containment expenses	0	XXX	XXX	XXX	XXX
20. Other claims adjustment expenses	1				
21. Total underwriting deductions (Line 23)	94.8	96.3	98.0	98.0	97.7
22. Total underwriting gain (loss) (Line 24)	5.2	3.7	2.0	2.0	2.3
UNPAID CLAIMS ANALYSIS					
(U&I Exhibit, Part 2B)					
23. Total claims incurred for prior years (Line 12, Col. 5)	100,974,982	54,452,159	64,483,345	50,304,536	44,963,910
24. Estimated liability of unpaid claims – [prior year (Line 12, Col. 6)]	105,423,025	73,792,854	73,424,215	64,312,351	44,835,660
INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES					
25. Affiliated bonds (Sch. D Summary, Line 25, Col. 1)	0	0	0	0	0
26. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1)	0	0	0	0	0
27. Affiliated common stocks (Sch. D Summary, Line 53, Col. 2)	0	0	0	0	0
28. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11)	0	0	0	0	0
29. Affiliated mortgage loans on real estate		0	0	0	0
30. All other affiliated		0	0	0	0
31. Total of above Lines 25 to 30	0	0	0	0	0

SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year					
Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS Governments (Including all obligations guaranteed by governments)	1. United States	41,083,430	40,911,638	41,548,994	40,555,382
	2. Canada				
	3. Other Countries				
	4. Totals	41,083,430	40,911,638	41,548,994	40,555,382
States, Territories and Possessions (Direct and guaranteed)	5. United States				
	6. Canada				
	7. Other Countries				
	8. Totals	0	0	0	0
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States.....	174,642	172,685	174,557	175,000
	10. Canada				
	11. Other Countries				
	12. Totals	174,642	172,685	174,557	175,000
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States	32,592,491	32,702,793	32,641,873	32,415,255
	14. Canada				
	15. Other Countries				
	16. Totals	32,592,491	32,702,793	32,641,873	32,415,255
Public Utilities (unaffiliated)	17. United States	311,977	310,758	312,570	300,000
	18. Canada				
	19. Other Countries				
	20. Totals	311,977	310,758	312,570	300,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States	51,052,989	51,030,606	51,605,960	48,809,281
	22. Canada				
	23. Other Countries				
	24. Totals	51,052,989	51,030,606	51,605,960	48,809,281
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0	0
	26. Total Bonds	125,215,529	125,128,480	126,283,954	122,254,918
PREFERRED STOCKS Public Utilities (unaffiliated)	27. United States				
	28. Canada				
	29. Other Countries				
	30. Totals	0	0	0	
Banks, Trust and Insurance Companies (unaffiliated)	31. United States				
	32. Canada				
	33. Other Countries				
	34. Totals	0	0	0	
Industrial and Miscellaneous (unaffiliated)	35. United States				
	36. Canada				
	37. Other Countries				
	38. Totals	0	0	0	
Parent, Subsidiaries and Affiliates	39. Totals	0	0	0	
	40. Total Preferred Stocks	0	0	0	
COMMON STOCKS Public Utilities (unaffiliated)	41. United States				
	42. Canada				
	43. Other Countries				
	44. Totals	0	0	0	
Banks, Trust and Insurance Companies (unaffiliated)	45. United States				
	46. Canada				
	47. Other Countries				
	48. Totals	0	0	0	
Industrial and Miscellaneous (unaffiliated)	49. United States	10,830,212	10,830,212	10,123,124	
	50. Canada				
	51. Other Countries				
	52. Totals	10,830,212	10,830,212	10,123,124	
Parent, Subsidiaries and Affiliates	53. Totals	0	0	0	
	54. Total Common Stocks	10,830,212	10,830,212	10,123,124	
	55. Total Stocks	10,830,212	10,830,212	10,123,124	
	56. Total Bonds and Stocks	136,045,741	135,958,692	136,407,078	

SCHEDULE D - VERIFICATION BETWEEN YEARS

1. Book/adjusted carrying value of bonds and stocks, prior year	58,470,044	6. Foreign Exchange Adjustment:	
2. Cost of bonds and stocks acquired, Column 7, Part 3	115,016,163	6.1 Column 15, Part 1	0
3. Increase (decrease) by adjustment:		6.2 Column 19, Part 2, Sec. 1	0
3.1 Columns 12 + 13 - 14, Part 1.	(830,680)	6.3 Column 16, Part 2, Sec. 2	0
3.2 Column 18, Part 2, Sec. 1	0	6.4 Column 15, Part 4	0
3.3 Column 15, Part 2, Sec. 2	707,088	7. Book/adjusted carrying value at end of current period	136,045,740
3.4 Column 14, Part 4	(127,874)	8. Total valuation allowance	
4. Total gain (loss), Col. 19, Part 4	15,982	9. Subtotal (Lines 7 plus 8)	136,045,740
5. Deduct consideration for bonds and stocks disposed of Column 7, Part 4	37,204,983	10. Total nonadmitted amounts	
		11. Statement value of bonds and stocks, current period	136,045,740

SCHEDULE T PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories								
States, Etc.	1	2	Direct Business Only					
	Guaranty Fund (Yes or No)	Is Insurer Licensed? (Yes or No)	3	4	5	6 Federal Employees Health Benefits Program Premiums	7 Life & Annuity Premiums & Deposit Type Contract Funds	8 Property/ Casualty Premiums
			Premiums	Medicare Title XVIII	Medicaid Title XIX			
1. Alabama	AL	No						
2. Alaska	AK	No						
3. Arizona	AZ	No						
4. Arkansas	AR	No						
5. California	CA	No						
6. Colorado	CO	No						
7. Connecticut	CT	No						
8. Delaware	DE	No						
9. District of Columbia	DC	No						
10. Florida	FL	No						
11. Georgia	GA	No						
12. Hawaii	HI	No						
13. Idaho	ID	No						
14. Illinois	IL	No						
15. Indiana	IN	No						
16. Iowa	IA	No						
17. Kansas	KS	No						
18. Kentucky	KY	No						
19. Louisiana	LA	No						
20. Maine	ME	No						
21. Maryland	MD	No						
22. Massachusetts	MA	No						
23. Michigan	MI	No	940,338,964					
24. Minnesota	MN	No						
25. Mississippi	MS	No						
26. Missouri	MO	No						
27. Montana	MT	No						
28. Nebraska	NE	No						
29. Nevada	NV	No						
30. New Hampshire	NH	No						
31. New Jersey	NJ	No						
32. New Mexico	NM	No						
33. New York	NY	No						
34. North Carolina	NC	No						
35. North Dakota	ND	No						
36. Ohio	OH	No						
37. Oklahoma	OK	No						
38. Oregon	OR	No						
39. Pennsylvania	PA	No						
40. Rhode Island	RI	No						
41. South Carolina	SC	No						
42. South Dakota	SD	No						
43. Tennessee	TN	No						
44. Texas	TX	No						
45. Utah	UT	No						
46. Vermont	VT	No						
47. Virginia	VA	No						
48. Washington	WA	No						
49. West Virginia	WV	No						
50. Wisconsin	WI	No						
51. Wyoming	WY	No						
52. American Samoa	AS	No						
53. Guam	GU	No						
54. Puerto Rico	PR	No						
55. U.S. Virgin Islands	VI	No						
56. Canada	CN	No						
57. Aggregate other alien	OT	XXX	0	0	0	0	0	0
58. Total (Direct Business)	XXX	(a) 1	940,338,964	0	0	0	0	0
DETAILS OF WRITE-INS								
5701.	XXX	XXX						
5702.	XXX	XXX						
5703.	XXX	XXX						
5798. Summary of remaining write-ins for Line 57 from overflow page	XXX	XXX	0	0	0	0	0	0
5799. Totals (Lines 5701 thru 5703 plus 5798) (Line 57 above)	XXX	XXX	0	0	0	0	0	0

Explanation of basis of allocation by states, premiums by state, etc.:
(a) Insert the number of yes responses except for Canada and other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER AND HMO MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART

